

National Bank of Ras Al Khaimah (RAKBANK)

Strong loan growth and product mix boosted profitability

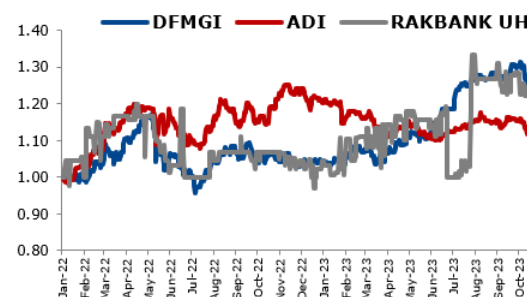
Current Price
AED 5.31

Target Price
AED 6.15

Upside/Downside (%)
+16%

Rating
BUY

- The Bank continued to maintain its business momentum and facilitated the opening of 3,750 business accounts and disbursed AED 595 Mn business loans in 3Q23
- RAKBANK's asset quality stood deteriorated marginally from 2.6% in 2Q23 to 2.9% in 3Q23 with a coverage ratio of 204.4% in 3Q23
- Advances rose 7.1% from AED 36.1 Bn in FY2022 to AED 38.6 Bn in 9M23 driven by growth in business across all segments. Retail sector added AED 1.3 Bn advances since FY2022, wholesale banking AED 903 Mn and business banking AED 903 Mn
- Deposits rose in line advances 8.0% from AED 44.9 Bn in 2022 to AED 48.5 Bn in 9M23 with a CASA deposit ratio of 68.2%



3Q23 Net Profit marginally below our estimate

National Bank of Ras Al-Khaimah (RAKBANK/the Bank) net profit rose 27.7% YOY to AED 451 Mn in 3Q23, slightly below our estimate of AED 464 Mn. Strong growth in net profit is mainly attributable to a solid rise in net funded and non-funded income partially offset by an increase in operating expenses and impairments.

P&L Highlights

RAKBANK's interest income from conventional loans and investments grew 55.9% YOY to AED 1,024 Mn in 3Q23 whereas interest expense on conventional deposits and borrowings increased significantly from AED 114 Mn in 3Q22 to AED 293 Mn in 3Q23. Thus, net interest income from conventional loans and advances rose 34.6% YOY to AED 732 Mn in 3Q23. Similarly, income from Islamic financing rose 20.5% YOY to AED 161 Mn in 3Q23 while Islamic financing expenses more than doubled from AED 25 Mn in 3Q22 to AED 50 Mn in 3Q23. As a result, RAKBANK's funded income rose 49.9% YOY to AED 1,186 Mn in 3Q23 mainly driven by expansion in asset yield and increase in net advances. On the other hand, funded expenses increased significantly from AED 138 Mn in 3Q22 to AED 343 Mn in 3Q23 due to increase in cost of funds owing to higher benchmark rates. Thus, net funded income rose 29.1% YOY to AED 843 Mn in 3Q23. The Bank's NIMs grew 67 bps YOY and 8 bps QOQ to 5.0% in 3Q23. Net fee and commission income rose 7.0% YOY to AED 175 Mn in 3Q23 due to a strong growth in card spendings and increased digital transactions whereas foreign exchange income grew 16.1% YOY to AED 90 Mn in 3Q23. RAKBANK's gross insurance underwriting profit stood at AED 11 Mn in 3Q23 as compared to nil in 3Q22. Similarly, the Bank's investment income stood at AED 3 Mn in 3Q23 as compare to a loss of AED 2 Mn in 3Q23. However, other operating income declined 34.4% YOY to AED 15 Mn in 3Q23. Thus, total non-funded income

Stock Information

Market Cap (AED, mm)	11,063.22
Paid Up Capital (mm)	2,011.49
52 Week High	6.15
52 Week Low	3.63
3M Avg. daily value(AED)	347,874

3Q23 Result Review (AED, mm)

Total Assets	72,004
Total Liabilities	62,219
Total Equity	9,785
Total Deposits	48,464
Net Profit	451

Financial Ratios

Dividend Yield (12m)	5.15
Dividend Pay-out (%)	48.68
Price-Earnings Ratio(x)	6.75
Price-to-Book Ratio (x)	1.13
Book Value (AED)	4.85
Return-on Equity (%)	17.80

Stock Performance

5 Days	1.85%
1 Months	-4.84%
3 Months	-2.83%
6 Months	24.53%
1 Year	37.50%
Month to Date (MTD%)	-4.84%
Quarter to Date (QTD%)	-4.84%
Year to Date (YTD%)	40.41%

rose 12.1% YOY to AED 294 Mn in 3Q23. As a result, total operating income inclined 24.2% YOY to AED 1,137 Mn in 3Q23. Furthermore, operating expenses rose 16.4% YOY to AED 434 Mn in 3Q23 due to increase in staff cost, marketing cost, technology expenses, and investments to strengthen regulatory compliance partially offset by decline in occupancy and communication cost. Thus, the cost to income ratio declined 256 bps YOY but rose 185 bps QOQ to 38.2% in 3Q23. In addition, RAKBANK's impairments increased 31.3% YOY to AED 251 Mn in 3Q23.

Balance Sheet Highlights

RAKBANK's total assets rose 12.8% YOY and 0.2% QOQ to AED 72.0 Bn in 3Q23. Net advances rose 13.0% YOY and 2.7% QOQ to AED 38.7 Bn in 3Q23. Moreover, customer deposits increased 20.4% YOY but declined 1.0% QOQ to AED 48.5 Bn in 3Q23 whereas the Bank's CASA deposits accounted for 68.2% of total deposits. The increase in customer deposits was mainly driven by growth in time deposits and CASA deposits. The Bank opened 3,750 business accounts and disbursed AED 595 Mn loans in 3Q23.

Target Price and Rating

We revise our rating from HOLD to BUY with an unchanged target price of AED 6.15. The stock corrected c. 3.5% since our last rating. RAKBANK recorded strong loan growth along with a healthy mix and a solid expansion in asset yield which drove the Bank's bottom line in 3Q23. RAKBANK's net advances rose 13.0% YOY to AED 38.7 Bn in 3Q23. The wholesale banking segment grew 8.8% YTD due to strong growth in the corporate banking portfolio. Similarly, retail banking segment witnessed a strong growth supported by 18.4% YTD increase in Mortgages, 13.7% YTD rise in auto loans, and 10.0% YTD growth in credit cards. Likewise, the Business banking segment recorded an 8.2% YTD rise on the back of strong 14.8% YTD growth in business loans and 4.3% YTD growth in other banking businesses. RAKBANK's CASA deposits as a percentage of total deposits increased marginally to 68.2% in 3Q23 as compared to 67.8% in 2Q23. The Bank's asset quality moderated as NPLs rose to 2.9% in 3Q23, up from 2.6% in 2Q23 while coverage ratio fell marginally to 204.4% in 3Q23 as against 221.3% in 2Q23. However, the Bank's stage 2 loans as a percentage of total loans declined to 2.6% in 3Q23 from 2.9% in 2Q23. Furthermore, the Bank witnessed a strong growth in card spends and digital transactions which boosts the Bank's non-core income. In addition, RAKBANK's capitalization improved with CET 1 ratio of 17.4%, Tier 2 capital ratio of 1.1% and CAR of 18.5% in 3Q23. Thus, considering the abovementioned factors, we assign an BUY rating on the stock.

RAKBANK - Relative valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	11.70	9.75	21.20	14.13	9.12	5.90
PB	1.51	1.37	1.37	1.28	1.19	1.05
Dividend yield	4.7%	4.7%	2.4%	3.5%	5.3%	5.5%

FABS Estimates & Co Data

RAKBANK – P&L

AED mm	3Q22	2Q23	3Q23	3Q23F	Var.	YOY Ch	QOQ Ch	2022	2023F	Change
Interest Income	791	1,127	1,186	1,176	0.8%	49.9%	5.2%	2,993	4,578	52.9%
Interest expense	-138	-298	-343	-303	13.3%	148.1%	15.0%	-504	-1,281	154.4%
Net funded income	653	828	843	874	-3.5%	29.1%	1.7%	2,489	3,296	32.4%
Net fees and commissions	164	174	175	181	-2.9%	7.0%	1.0%	658	691	5.0%
Foreign exchange gain	77	75	90	76	18.7%	16.1%	19.6%	218	317	45.0%
Gross insurance underwriting Profit	0	13	11	0	NM	NA	NA	7	26	NM
Investment Income	-2	5	3	10	-71.7%	NM	-47.7%	8	61	NM
Other operating income	23	21	15	18	-15.5%	-34.4%	-28.1%	71	66	-8.0%
Total non-funded income	262	288	294	284	3.5%	12.1%	2.2%	962	1,160	20.6%
Net operating income	915	1,116	1,137	1,158	-1.8%	24.2%	1.9%	3,452	4,456	29.1%
Operating expenses	-373	-406	-434	-423	2.7%	16.4%	7.0%	-1,484	-1,644	10.8%
Pre-provision profit	542	711	703	735	-4.4%	29.6%	-1.1%	1,967	2,812	42.9%
Impairment	-191	-260	-251	-270	-7.2%	31.3%	-3.6%	-804	-1,000	24.3%
Profit for the year	351	450	452	465	-2.8%	28.6%	0.4%	1,163	1,812	55.8%
Non-controlling interest	2	-1	-1	-1	20.1%	NM	20.7%	7	-2	NM
Net profit attributable	353	450	451	464	-2.9%	27.7%	0.3%	1,171	1,810	54.6%

FABS estimate & Co Data

RAKBANK – KPI

	3Q22	2Q23	3Q23	YOY Ch	QOQ Ch	2022	2023F	Change
Net FI/OI	71.3%	74.2%	74.1%	279	-9	72.1%	74.0%	185
NIM	4.4%	5.0%	5.0%	67	8	4.2%	5.3%	110
NIS	4.2%	4.7%	4.8%	57	7	4.1%	5.1%	99
Fees & comms/OI	17.9%	15.6%	15.4%	-248	-13	19.1%	15.5%	-356
Foreign exchange gain/OI	8.5%	6.7%	7.9%	-55	117	6.3%	7.1%	78
Other operating income/OI	2.6%	1.9%	1.3%	-120	-56	2.1%	1.5%	-59
Invnt Income/OI	-0.3%	0.5%	0.2%	51	-23	0.2%	1.4%	114
Cost to income	40.7%	36.3%	38.2%	-256	185	43.0%	36.9%	-610
Impairment/PPP	35.2%	36.6%	35.7%	47	-94	40.9%	35.6%	-532
NP/OI	38.6%	40.3%	39.7%	108	-61	33.9%	40.6%	670
ROAE	13.1%	16.4%	17.2%	410	72	13.5%	18.8%	533
ROAA	1.8%	2.2%	2.3%	50	9	1.9%	2.6%	72

FABS estimate & Co Data

RAKBANK - Key B/S items

AED mm	3Q22	4Q22	1Q23	2Q23	3Q23	YOY Ch
Net advances	34,196	36,071	36,444	37,631	38,647	13.0%
QOQ ch	0.6%	5.5%	1.0%	3.3%	2.7%	
Total assets	63,832	66,346	68,878	71,865	72,004	12.8%
QOQ ch	5.1%	3.9%	3.8%	4.3%	0.2%	
Customer deposits	40,255	44,871	46,366	48,965	48,464	20.4%
QOQ ch	1.8%	11.5%	3.3%	5.6%	-1.0%	
Total equity	8,679	9,021	9,432	9,355	9,785	12.7%
QOQ ch	4.1%	3.9%	4.6%	-0.8%	4.6%	

FABS estimate & Co Data

Valuation:

We use Residual Income and Relative Valuation (RV) method to value RAKBANK. We have assigned 70% weight to Residual Income, and 30% to RV method.

Valuation Method	Target	Weight	Weighted Value
Residual Income	6.53	70.0%	4.57
Relative Valuation (RV)	5.28	30.0%	1.59
Weighted Average Valuation (AED)			6.15
Current market price (AED)			5.31
Upside/Downside (%)			+15.8%

1) Residual Income Method:

We have discounted the economic profit/excess equity using the cost of equity of 9.1%. Cost of equity is calculated by using 10-year government bond yield of 4.5%, beta of 1.00 and equity risk premium of 4.6%. Government bond yield is calculated after adding Abu Dhabi 10-year CDS spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	2,249
Terminal value (AED, Mn)	1,124
Book Value of Equity (as of Sept 2023)	9,757
FV to Common shareholders (AED, Mn)	13,130
No. of share (Mn)	2,011
Current Market Price (AED)	5.31
Fair Value per share (AED)	6.53

Residual Income Method

(All Figures in AED Mn)	FY 2023E	FY 2024E	FY 2025E	FY 2026E	FY 2027E
Net Profit	1,810	1,682	1,659	1,536	1,377
(-) Equity Charge	(925)	(1,023)	(1,116)	(1,199)	(1,265)
Excess Equity	885	660	542	337	112
Discounting Factor	0.98	0.90	0.83	0.76	0.70
Present Value of Excess Equity	871	596	449	256	78

Source: FAB Securities

2) Relative Valuation:

We have used local peers to value RAKBANK and it is valued using the PB multiple. It is valued at a PB multiple of 1.0x in line with peers.

Company	Market (USD Mn)	P/B (x)		P/E (x)		Dividend Yield (x)	
		2023F	2024F	2023F	2024F	2023F	2024F
Sharjah Islamic Bank	2,070	1.2	1.1	11.2	9.8	4.5	5.2
Commercial Bank of Dubai	3,747	1.0	1.0	NA	NA	5.6	6.0
Emirates NBD	27,520	1.0	0.9	4.7	5.6	5.2	5.2
Mashreq Bank	8,303	1.2	NA	5.3	5.6	8.2	8.2
Abu Dhabi Commercial Bank	15,570	0.9	0.9	7.8	8.3	6.4	6.3
Dubai Islamic Bank	10,610	1.1	1.0	7.1	7.6	6.3	6.3
Average		1.1x	1.0x	7.2x	7.4x	6.0%	6.2%
Median		1.0x	1.0x	7.1x	7.6x	6.0%	6.1%
Max		1.2x	1.0x	7.8x	8.3x	6.4%	6.3%
Min		1.0x	0.9x	5.3x	5.6x	5.3%	5.4%

Source: FAB Securities

Research Rating Methodology:

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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